

ANNUAL FINANCIAL REPORT

of the

CITY OF EL LAGO, TEXAS

For the Year Ended
September 30, 2015

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CITY OF EL LAGO, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of El Lago, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the City of El Lago, Texas (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the City as of September 30, 2015, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

DRAFT
Belt Harris Peohacek, LLP

Belt Harris Peohacek, LLP
Certified Public Accountants
Houston, Texas
May 6, 2016

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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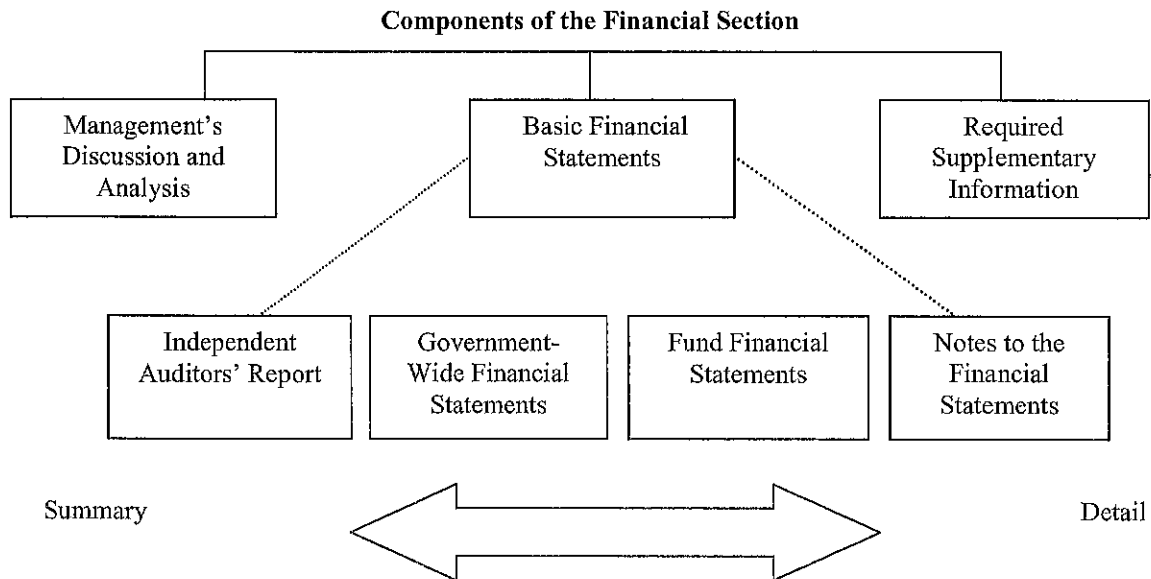
CITY OF EL LAGO, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2015

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of El Lago (the "City") for the year ending September 30, 2015. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change

CITY OF EL LAGO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities present one class of activity for the City:

1. *Governmental Activities* – The City's basic services are reported here including public safety (police, fire), public health (mosquito control, solid waste disposal, EMS), public works (streets and maintenance), parks and maintenance, municipal court, and general government. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The City uses only one category of funds, which is governmental.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is always considered to be a major fund for reporting purposes.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

CITY OF EL LAGO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the fiscal year ended September 30, 2015, the City's assets exceed liabilities by \$4,655,025.

The largest portion of the City's net position reflects its investments in capital assets (e.g., land, City Hall, streets, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

		Governmental Activities	
		2015	2014
Current and other assets	\$	661,023	\$ 540,744
Capital assets, net		5,493,125	3,349,730
Total Assets		6,154,148	3,890,474
Long-term liabilities		1,438,320	1,538,922
Other liabilities		60,803	39,982
Total Liabilities		1,499,123	1,578,904
Net Position:			
Net investment in capital assets		4,063,125	1,819,730
Restricted		39,949	36,069
Unrestricted		551,951	455,771
Total Net Position	\$	4,655,025	\$ 2,311,570

A portion of the primary government's net position, \$39,949, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$551,951 may be used to meet the City's ongoing obligation to citizens and creditors.

CITY OF EL LAGO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Statement of Activities:

The following table provides a summary of the City's changes in net position:

		Governmental Activities	
		2015	2014
Revenues			
Program revenues:			
Charges for services	\$	333,982	\$ 368,426
Operating grants and contributions		132,000	127,000
Capital grants and contributions		2,311,750	-
General revenues:			
Property taxes		1,207,907	1,130,124
Franchise and local taxes		172,122	171,649
Sales taxes		149,042	139,984
Other taxes		31,049	26,640
Other revenue		36,179	9,282
Investment income		1,598	964
Total Revenues		4,375,629	1,974,069
Expenses			
General government		577,587	520,163
Public health		223,429	227,490
Municipal court		119,936	146,262
Public safety		849,886	848,930
Public works		130,230	35,127
Parks and maintenance		65,324	69,341
Interest on long-term debt		65,782	71,624
Total Expenses		2,032,174	1,918,937
Change in Net Position		2,343,455	55,132
Beginning net position		2,311,570	2,256,438
Ending Net Position	\$	4,655,025	\$ 2,311,570

The City's net position increased by \$2,343,455. This net change can be attributed to the capital contribution from Harris County for various street improvements. Total revenues increased by \$2,401,560, or 122 percent, primarily as a result of the contribution of infrastructure from Harris County as well as an increase in all general revenues. Total expenses increased in the current year by \$113,237. A significant portion of this increase can be attributed to additional street repairs and maintenance costs as well as an increase in depreciation of infrastructure.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

CITY OF EL LAGO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

The City's general fund reflects a fund balance of \$579,336. Of this, \$10,968 is restricted for child safety, \$8,578 for building security expenditures, \$20,403 for governmental programming, and \$12,000 is assigned for future projects. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 27 percent of total general fund expenditures, while total fund balance represents 29 percent of the same amount.

The City's fund balance in the general fund increased by \$97,629 during the current fiscal year. This increase is due to additional tax revenue from all sources, including property, franchise, sales, and other taxes. The City also received additional revenue in comparison to the prior year for charges for services and intergovernmental revenue.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues exceeded anticipated original and amended budgeted revenues by \$50,398 during the year. This net positive variance is primarily the result of additional charges for services received from the City's fitness center than anticipated for the 2015 fiscal year.

Total general fund actual expenditures were less than budgeted expenditures by \$18,345.

CAPITAL ASSETS

At the end of the year, the City's governmental activities had invested \$7,624,120 in a variety of capital assets and infrastructure. This represents a net increase of \$2,115,441.

More detailed information about the City's capital assets is presented in note III.B. to the financial statements.

LONG-TERM DEBT

At year end, the City had \$1,430,000 in certificates of obligation outstanding versus \$1,530,000 last year. The City paid \$100,000 in principal payments during the year.

More detailed information about the City's long-term liabilities is presented in note III.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Tax Rates

In support of the City's fiscal year 2016 budget, the City Council approved an ad valorem tax rate for 2015 of \$0.51045 per \$100 valuation for maintenance and operations plus an additional debt service rate of \$0.06984 per \$100 valuation, which pays for the Community Center debt. These rates are reduced from the prior year by \$0.01772 for maintenance and \$0.01619 for debt for an overall reduction of \$0.03391, which is approximately a six percent decrease. This reduction is a result of reduced expenses, increased ad valorem tax base, and the refinancing of the debt which alone brought about \$177,084 in savings on interest. Of this amount, over \$19,000 will be realized in 2016.

CITY OF EL LAGO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Expenses

In an ongoing effort to make the City more environmentally friendly, the City Council voted to place all of the City's electricity accounts with Green Mountain Energy making all of the City's electrical power now from 100 percent renewable resources. At the same time, this change cut the cost per kilowatt hour by half and is expected to significantly reduce anticipated electrical expenses for the new fiscal year. Most other major contracted expenses including fire, trash, and emergency medical remained fairly static with the exception of the police budget. The Commission for the Lakeview Police Department voted to increase the Lakeview Police Department's budget by approximately \$76,000. This increase is intended to provide salary increases for officers and cover ever rising medical insurance costs. As in the previous year, the City Council has designated funds be set aside for future projects including \$4,000 (to be added to the already designated \$10,000 from the previous year) for the rebuilding of the swimming pool pump house and another \$40,000 toward the refurbishment of the City's front entrances. Additionally, funds for a four percent Homestead Exemption for all residences have been designated so that in the following year, an exemption of four percent or greater can be set into place for the 2016 taxing year.

Revenues

Although the ad valorem tax rate was decreased, revenues are still expected to increase by a little over \$100,000 from the previous fiscal year due to the rise in residential and commercial property values and other tax collections based on sales and franchise agreements.

Economic Factors

The goal to maintain an unassigned fund balance in the general fund of 25 percent of annual expenditures, as adopted by City Council in Resolution 2013-02 *City of El Lago Fund Balance Policy*, was achieved in the 2015 fiscal year. Property values in the City of El Lago rose by nine percent in 2015, which was above most other cities in our area. Building permits for the residential district have increased exponentially over the last several years and even some of our commercial properties have recently done significant renovations. Although continued litigation between the owners of the demolished Landing property still inhibits the sale of the 6.7 acre commercial lakefront tract on NASA Parkway, the rest of the City is thriving, and along with that, the City's financial outlook.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Robert White, Mayor, City Hall, 411 Tallowood Drive, El Lago, Texas, 77586; telephone (281) 326-1951.

BASIC FINANCIAL STATEMENTS

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CITY OF EL LAGO, TEXAS

STATEMENT OF NET POSITION

September 30, 2015

	Primary Government Governmental Activities
<u>Assets</u>	
Cash and cash equivalents	
Unrestricted	\$ 442,363
Restricted	39,013
Prepaid expenses	62,411
Receivables, net	117,236
	<u>661,023</u>
Capital assets:	
Nondepreciable capital assets	467,748
Net depreciable capital assets	<u>5,025,377</u>
	<u>5,493,125</u>
Total Assets	<u>6,154,148</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	46,325
Accrued interest	8,798
Unearned revenue	5,680
Noncurrent liabilities:	
Due within one year	112,488
Due in more than one year	<u>1,325,832</u>
Total Noncurrent Liabilities	<u>1,438,320</u>
Total Liabilities	<u>1,499,123</u>
<u>Net Position</u>	
Net investment in capital assets	4,063,125
Restricted for:	
Child safety	10,968
Building security	8,578
Governmental programming	20,403
Unrestricted	<u>551,951</u>
Total Net Position	<u>\$ 4,655,025</u>

See Notes to Financial Statements.

CITY OF EL LAGO, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 577,587	\$ -	\$ -	\$ 2,311,750
Public health	223,429	30,140	-	-
Municipal court	119,936	168,155	-	-
Public safety	849,886	-	132,000	-
Public works	130,230	-	-	-
Parks and maintenance	65,324	135,687	-	-
Interest on long-term debt	65,782	-	-	-
Total Governmental Activities	<u>\$ 2,032,174</u>	<u>\$ 333,982</u>	<u>\$ 132,000</u>	<u>\$ 2,311,750</u>
General Revenues:				
Taxes				
Property				
Franchise				
Sales				
Other				
Investment income				
Other revenues				
			Total General Revenues	
			Change in Net Position	
Beginning net position				Ending Net Position

See Notes to Financial Statements.

Net (Expense)
Revenue and
Change in
Net Position

Primary
Government

Governmental
Activities

\$	1,734,163
	(193,289)
	48,219
	(717,886)
	(130,230)
	70,363
	(65,782)
	<hr/> 745,558 <hr/>

	1,207,907
	172,122
	149,042
	31,049
	1,598
	36,179
	<hr/> 1,597,897 <hr/>
	2,343,455
	2,311,570
\$	<hr/> 4,655,025 <hr/>

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CITY OF EL LAGO, TEXAS

BALANCE SHEET GOVERNMENTAL FUND

September 30, 2015

	<u>General</u>
Assets	
Cash and cash equivalents:	
Unrestricted	\$ 442,363
Restricted	39,013
Prepaid expenses	62,411
Receivables	
Property taxes, net	29,682
Other taxes	87,554
Total Assets	<u><u>\$ 661,023</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 46,325
Unearned revenue	5,680
Total Liabilities	<u><u>52,005</u></u>
Deferred Inflows of Resources	
Unavailable revenue - property taxes	29,682
Total Deferred Inflows of Resources	<u><u>29,682</u></u>
Fund Balances	
Restricted for:	
Child safety	10,968
Building security	8,578
Governmental programming	20,403
Assigned	12,000
Unassigned	527,387
Total Fund Balance	<u><u>579,336</u></u>
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.	
Nondepreciable capital assets	467,748
Net depreciable capital assets	5,025,377
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund.	29,682
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental fund.	
Accrued interest payable	(8,798)
Non-current liabilities due in one year	(112,488)
Non-current liabilities due in more than one year	(1,325,832)
Net Position of Governmental Activities	<u><u>\$ 4,655,025</u></u>

See Notes to Financial Statements.

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CITY OF EL LAGO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended September 30, 2015

	<u>General</u>
Revenues	
Taxes:	
Property	\$ 1,208,381
Franchise	172,122
Sales	149,042
Other	31,049
Licenses and permits	30,140
Fines and forfeitures	168,155
Charges for services	135,687
Intergovernmental	132,000
Investment income	1,598
Other	36,179
Total Revenues	<u>2,064,353</u>
Expenditures	
Current:	
General government	465,711
Public health	223,429
Municipal court	120,064
Public safety	849,886
Public works	59,847
Parks and maintenance	79,702
Debt service:	
Principal	100,000
Interest	68,085
Total Expenditures	<u>1,966,724</u>
Net Change in Fund Balance	97,629
Beginning fund balance	<u>481,707</u>
Ending Fund Balance	<u><u>\$ 579,336</u></u>

See Notes to Financial Statements.

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CITY OF EL LAGO, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

Net change in fund balance - governmental fund	\$	97,629
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		23,270
Capital grant and contribution		2,311,750
Depreciation expense		(191,625)

Revenues in the Statement of Activities that do not provide current financial resources are are not reported as revenues in the funds.		(474)
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal payment		100,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Compensated absences		602
Accrued interest		2,303

Change in Net Position of Governmental Activities	\$	<u>2,343,455</u>
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See Notes to Financial Statements.

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CITY OF EL LAGO, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of El Lago, Texas (the "City") was organized as the Village of El Lago and incorporated in 1961 as a General Law Village, under Chapter 11, Title 28, Acts of the Texas Legislature, 1925 as amended. The incorporation papers were subsequently amended to permit operation as a Type A General Law City under the authority of Chapters 1 through 10 of the above act, and the name changed to its present name.

The City provides the following services: public safety to include police, fire, and emergency medical services (through financial support to other entities); parks; recreation; public improvements; public health; and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which relay to a significant extent on fees and charges for support. The City does not report any business-type activities.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

CITY OF EL LAGO, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category, governmental, are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The City reports the following governmental fund:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, public health, parks and maintenance, municipal court, and debt service. The general fund is always considered a major fund for reporting purposes.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF EL LAGO, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government and State of Texas or their agencies or instrumentalities
- Fully collateralized certificates of deposit
- Mutual funds of specific type
- Investment pools

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) and are recognized as expenditures when utilized.

4. Restricted Assets

Certain proceeds received from municipal court fines and forfeitures and funds to support public, educational, and governmental (PEG) programming are restricted in how they may be spent, and are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and/or their use is limited by applicable debt covenants or state or federal statute.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activity column in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for

CITY OF EL LAGO, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

capital assets and improvements are capitalized as projects are constructed. The City does not capitalize net interest cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Furniture and equipment	5 to 10 years
Infrastructure	50 years
Buildings and improvements	5 to 50 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental fund balance sheet. The governmental fund reports unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

7. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and personal time. Amounts of vacation time accumulated may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the debt using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

CITY OF EL LAGO, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources and payments of principal and interest are reported as expenditures. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

9. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

11. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments

CITY OF EL LAGO, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

12. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied by September 15 of each year. Taxes become due on October 1 and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund. The original budget is adopted by the City Council prior to the beginning of the year. City Council may amend the budget throughout the year. Appropriations lapse at the end of the year.

CITY OF EL LAGO, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2015, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 5,002	0.00
Total Fair Value	<u><u>\$ 5,002</u></u>	
Portfolio weighted average maturity		0.00

Credit risk. State law and the City's investment policy limits investments to obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent. Further, commercial paper must be rated not less than "A-1" or "P-1" or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2015, the City's investment in TexPool was rated "AAA" by Standard & Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2015, market values of pledged securities and FDIC insurance combined exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool "AAA". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

CITY OF EL LAGO, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

B. Capital Assets

A summary of changes in capital assets at year end is as follows:

	Primary Government			
	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 467,748	\$ -	\$ -	\$ 467,748
Total Capital Assets Not Being Depreciated	<u>467,748</u>	<u>-</u>	<u>-</u>	<u>467,748</u>
Other capital assets:				
Infrastructure	1,913,628	2,246,275	(219,579)	3,940,324
Buildings and improvements	2,916,344	82,456	-	2,998,800
Furniture and equipment	210,959	6,289	-	217,248
Total Other Capital Assets	<u>5,040,931</u>	<u>2,335,020</u>	<u>(219,579)</u>	<u>7,156,372</u>
Less accumulated depreciation for:				
Infrastructure	(1,485,901)	(70,383)	219,579	(1,336,705)
Buildings and improvements	(568,591)	(93,681)	-	(662,272)
Furniture and equipment	(104,457)	(27,561)	-	(132,018)
Total Accumulated Depreciation	<u>(2,158,949)</u>	<u>(191,625)</u>	<u>219,579</u>	<u>(2,130,995)</u>
Other capital assets, net	<u>2,881,982</u>	<u>2,143,395</u>	<u>-</u>	<u>5,025,377</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,349,730</u>	<u>\$ 2,143,395</u>	<u>\$ -</u>	<u>5,493,125</u>
		Less debt associated with capital assets		<u>(1,430,000)</u>
		Net Investment in Capital Assets		<u>\$ 4,063,125</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 118,576
Public works	70,383
Parks and maintenance	2,666
Total Governmental Activities Depreciation Expense	<u>\$ 191,625</u>

CITY OF EL LAGO, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

C. Long-Term Debt

The City issues certificates of obligation for the acquisition of assets and construction of major capital facilities. The certificates of obligation are further supported by specific annual tax levies which are legally restricted to servicing this debt issue. The collection and remittance of such levies is controlled and reported in the general fund, beginning in fiscal year 2012. The following is a summary of the changes in the City's long-term obligations for the year.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Certificates:					
Certificates of obligation	\$ 1,530,000	\$ -	\$ (100,000)	\$ 1,430,000	* \$ 105,000
Other liabilities:					
Compensated absences	8,922	11,119	(11,721)	8,320	7,488
Total Governmental Activities	<u>\$ 1,538,922</u>	<u>\$ 11,119</u>	<u>\$ (11,721)</u>	<u>\$ 1,438,320</u>	<u>\$ 112,488</u>
Long-term debt due in more than one year				<u>\$ 1,325,832</u>	
*Debt associated with capital assets				<u>\$ 1,430,000</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental fund. The governmental activities compensated absences are liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term debt at year end was comprised of the following debt issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
Certificates of Obligation		
Series 2010	2.420%	<u>\$ 1,430,000</u>
Total Governmental Activities Long-Term Debt		<u>\$ 1,430,000</u>

On April 8, 2015, the City passed a Resolution Modifying Ordinance Authorizing the Issuance of Certificates of Obligation. This resolution reflects the agreement between the City and the holder of the Certificates to lower the interest rate from 4.45% to 2.42% effective December 1, 2015 and to extend the call date to December, 2021.

CITY OF EL LAGO, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ending Sept 30	Governmental Activity	
	Certificates of Obligation	
	Principal	Interest
2016	\$ 105,000	\$ 44,282
2017	110,000	32,065
2018	110,000	29,403
2019	115,000	26,741
2020	125,000	23,958
2021-2025	705,000	71,995
2026	160,000	3,872
Total	\$ 1,430,000	\$ 232,316

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

C. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the "Plan") created in accordance with the Internal Revenue Code Section 457. The Plan, available to all permanent City employees, permits them to defer until future years up to 25 percent of annual gross earnings not to exceed \$13,000. The City matches employee contributions to the Plan up to six percent of these annual earnings. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The City contributed \$5,717 to the Plan during the current year.

The City also offers participation in the Plan to employees of the City of Taylor Lake Village and Lakeview Police Department.

CITY OF EL LAGO, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

D. Related Organizations and Joint Ventures

Lakeview Police Department

The City entered into an interlocal cooperation agreement with the City of Taylor Lake Village to create the Lakeview Police Department (the "Department"). The City and the City of Taylor Lake Village each provide 50 percent of the support necessary to furnish all police services and law enforcement activities to the participants. Each City Council of the participating cities appoints two representatives and one alternate to the Department's Board of Commissioners biannually. The Department's Board of Commissioners controls the operations of the Department, which includes adopting operating and capital budgets.

On September 20, 2012, the City entered into a facilities agreement with the Department. The City agreed to lease approximately 1,255 square feet of the building located at 98 Lakeshore Drive, El Lago, Texas to the Department. The building is used by the Department for the conduct of its governmental operations, including the provision of law enforcement and police protection. The Department shall compensate the City for the space occupied in an amount equal to the building space occupied by the Department within the facility multiplied by a lease and utilities cost amount of \$19.91 per square foot per year. The fees shall be prorated on a monthly basis and deducted from the City's monthly funding payment. For the year ended September 30, 2015, the City received the equivalent of \$24,987 in rent income.

Consolidated financial information of the Department extracted from the audited financial statements for the year ended September 30, 2015, on which the Department's auditors expressed an unmodified opinion, is as follows:

	<u>2015</u>
Total assets	\$ 83,916
Total liabilities	72,093
Total Participants' Equity	<u><u>\$ 11,823</u></u>
 Total revenues	 \$ 1,409,563
Total expenses	1,415,958
Revenues (Under) Expenses	<u>(6,395)</u>
 Beginning participants' equity	 18,218
Ending Participants' Equity	<u><u>\$ 11,823</u></u>

Seabrook Volunteer Fire Department

The City has entered into an interlocal agreement (the "Contract") with the Seabrook Volunteer Fire Department (the "Fire Department") for firefighting services that started October 13, 2013. The terms of the Contract state that after one year, if no new Contract replacing the current Contract is entered between the parties, then the parties agree that after September 30, 2014, the Contract shall continue on a month-to-month basis, unless terminated earlier. The City has agreed to pay the sum of \$144,676 per year, payable in equal monthly installments of \$12,056.33. For each annual payment thereafter, there will be an increase in the payment amount of one and one-half percent per year to compensate for inflation. For 2015, the City paid \$146,846.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EL LAGO, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2015
With Comparative Totals for the Year Ended September 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<u>Revenues</u>				
Taxes:				
Property	\$ 1,214,768	\$ 1,207,268	\$ 1,208,381	\$ 1,113
Franchise	171,500	168,500	172,122	3,622
Sales	130,000	143,000	149,042	6,042
Other	21,000	29,000	31,049	2,049
Licenses and permits	13,000	24,750	30,140	5,390
Fines and forfeitures	208,000	166,450	168,155	1,705
Charges for services	85,700	85,700	135,687	49,987
Intergovernmental	132,000	132,000	132,000	-
Investment income	1,000	1,000	1,598	598
Other	36,987	56,287	36,179	(20,108)
Total Revenues	2,013,955	2,013,955	2,064,353	50,398
<u>Expenditures</u>				
Current:				
General government	486,876	467,876	465,711	2,165
Public health	224,610	225,310	223,429	1,881
Municipal court	142,105	122,505	120,064	2,441
Public safety	853,163	853,663	849,886	3,777
Public works	30,600	60,600	59,847	753
Parks and maintenance	79,630	87,030	79,702	7,328
Debt service:				
Principal	100,000	100,000	100,000	-
Interest	68,085	68,085	68,085	-
Total Expenditures	1,985,069	1,985,069	1,966,724	18,345
Net Change in Fund Balance	\$ 28,886	\$ 28,886	97,629	\$ 68,743
Beginning fund balance			481,707	
Ending Fund Balance			\$ 579,336	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

2014
Actual

\$	1,123,920
	171,649
	139,984
	26,640
	33,778
	209,596
	125,052
	127,000
	964
	9,282
	<hr/>
	1,967,865
	<hr/>

444,111
227,490
145,701
848,930
1,626
67,029

95,000
72,313

1,902,200

\$ 65,665

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